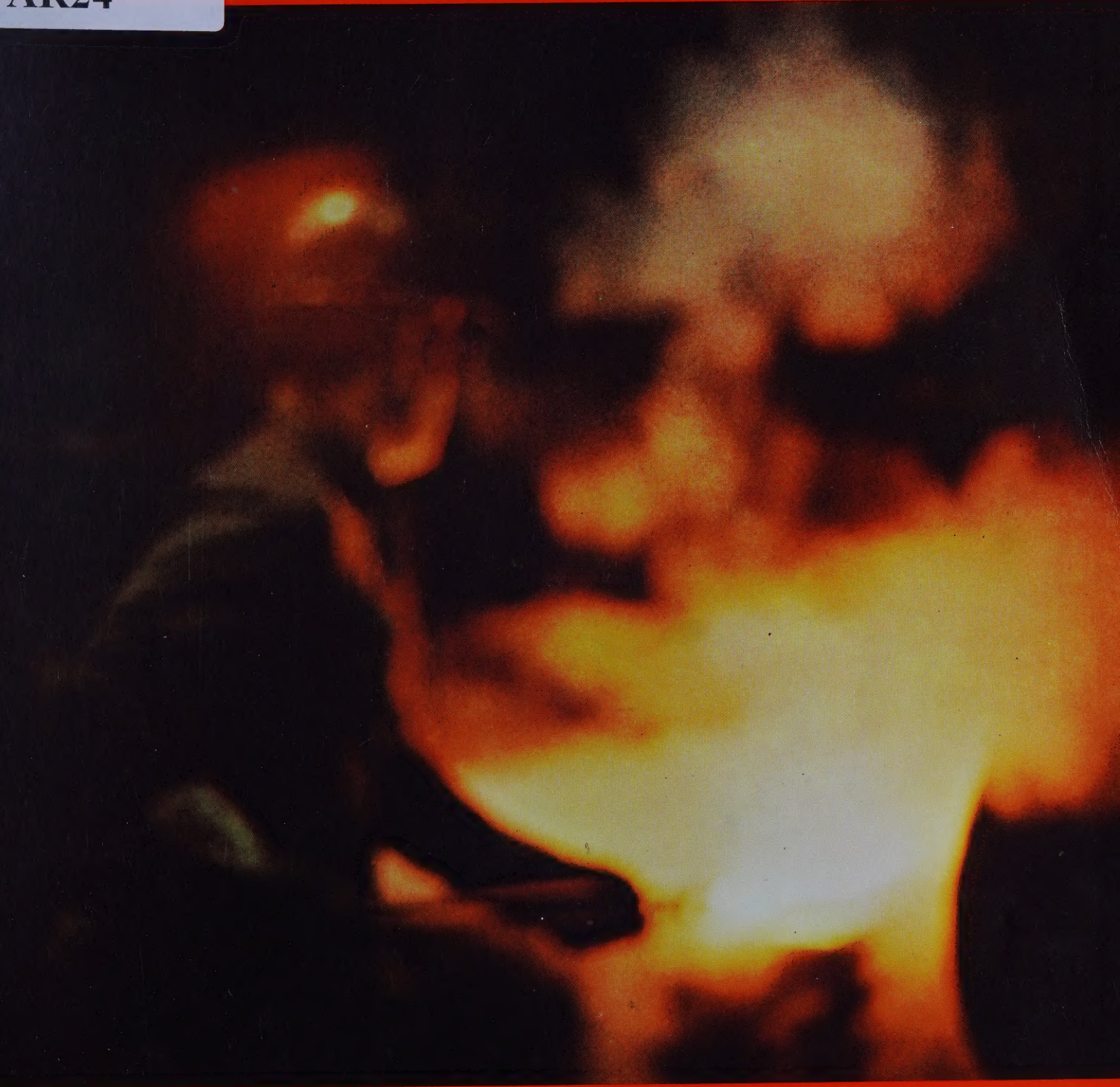


# CANADA FORGINGS LIMITED

AR24



ANNUAL REPORT 1971



## CANADA FORGINGS LIMITED

Canada Forgings Limited (CanForge) is a Canadian public company with production facilities located in Welland, Ontario. Its facilities consist of two plants covering an aggregate of 170,000 square feet located on two parcels of land totalling 8-1/2 acres. Welland is advantageously situated in the Niagara Peninsula and provides close proximity to both raw material suppliers and the major industrial centres of North America.

The Heavy Forge plant is equipped with forging presses to 1000 tons, open die steam hammers to 8000 pounds, and a rolled ring forging unit, all with the required ancillary heat treating, cleaning, and testing support. The plant is also equipped with a full complement of lathes, boring mills, planers, and other machines to supply a complete range of rough machined forgings. CanForge products become part of pulp and paper machines, steel mills, heat exchangers, and other capital equipment either as original or service components. The major markets for this division are located in Ontario and Quebec.

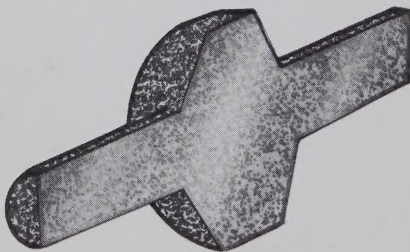
The Drop Forge plant has closed die steam and board hammers to 10,000 and 2,500 pounds respectively. This plant also has its own ancillary heat treating, cleaning, testing, and die-making facilities. Impression die forgings are produced weighing from a few ounces to 150 pounds, made from carbon, alloy, and stainless steel, as well as non-ferrous alloys. The primary markets for this division are in the automotive, petrochemical, railway, ordnance, aircraft, and agricultural implement industries. A large proportion of its product is exported to the United States.

Both plants are supported by engineering and metallurgical skills which allow production within rigid specifications. The combination of a unique range of equipment in its plants and balanced inventories of raw material provides CanForge with the ability to offer prompt, efficient service to its customers.

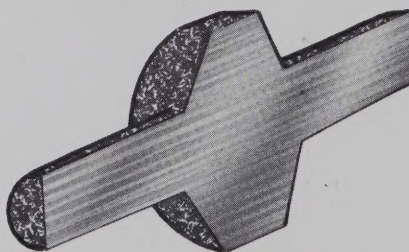
CanForge now employs 275 people with its plant employees being represented by the U.A.W.

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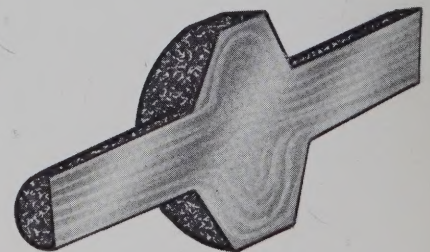
FORGING IS THE ONLY METALFORMING PROCESS THAT ORIENTS THE GRAIN OF THE METAL TO THE SHAPE OF THE PART. FROM THIS SIMPLE FACT STEMS THE MANY ADVANTAGES THAT ARE INHERENT IN ALL FORGED PARTS; HIGH STRENGTH, RELIABILITY, AND OPTIMUM MECHANICAL PROPERTIES.



**CAST**  
From Molten Metal



**MACHINED**  
From Bar Stock



**FORGED**  
Hot or Cold

A CAST PART HAS A RANDOM GRAIN STRUCTURE.

A MACHINED PART RETAINS THE GRAIN ORIENTATION OF THE RAW STOCK.  
ONLY A FORGED PART HAS THE GRAIN FLOW ORIENTED TO THE PART CONTOUR.



## CANADA FORGINGS LIMITED

### REPORT TO THE SHAREHOLDERS

Your company was affected during the year 1971 by a number of dominant factors, more of which were detrimental than beneficial.

A general slackness in the North American drop forgings market, which made itself evident during 1970, has continued with the result that an unsatisfactorily low level of plant utilization and downward pressures on selling prices have not allowed us to compensate for increased costs. This is further aggravated by the fact that a very large proportion of our Drop Forge sales is in U.S. dollars so that the appreciation in the value of Canadian currency has seriously eroded operating margins.

In spite of a relatively weak capital goods market, which our Heavy Forge plant services, we have again been successful in achieving greater sales of heavy forgings. The increase in total sales for the year of 5.5 percent over 1970 is completely attributable to Heavy Forge products.

A further heartening feature of the past year has been the recognition, by members of a growing nuclear community, that Canada Forgings is a dependable supplier of quality products. This augurs well for our future in a developing field.

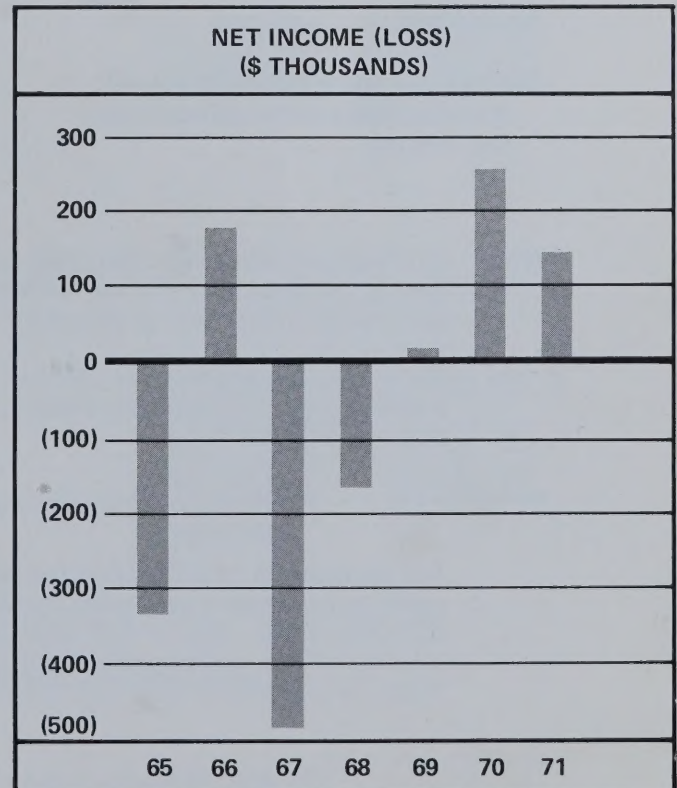
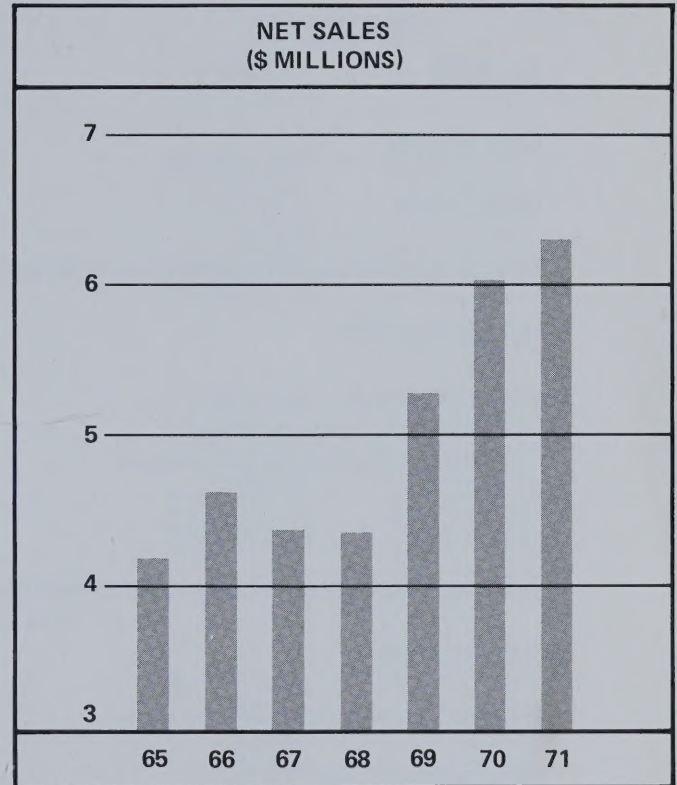
Net income for the year was \$144,333, as compared with net income of \$250,445 in 1970. This reduction in income is all due to the adverse factors affecting our Drop Forge business.

At December 31, 1971 the company's undepreciated capital cost for income tax purposes exceeded the net carrying value of the depreciable assets by approximately \$1,200,000. This amount is available for the reduction of approximately \$600,000 of future years' income taxes.

Our marketing and production efforts are being emphasized to help us partially offset the negative factors in the drop forgings market. It is expected that some buoyancy should return to the capital goods market during the coming year with a consequent beneficial impact on sales of heavy forgings. We continue, therefore, to look forward to the future with confidence.

Welland, Ontario  
April 10, 1972

On behalf of the Board,  
D. E. MacDonald  
President



## CANADA FORGINGS LIMITED

## STATEMENT OF OPERATIONS

	<u>Years ended December 31</u>	
	<u>1971</u>	<u>1970</u>
Net sales	\$6,336,972	\$6,004,204
Cost of sales	<u>5,801,468</u>	<u>5,325,901</u>
Gross profit	535,504	678,303
Selling general and administrative expenses	<u>307,504</u>	<u>327,680</u>
Operating profit	228,000	350,623
Other expenses:		
Interest on long term debt	20,222	24,800
Other interest and bank charges	<u>63,445</u>	<u>75,378</u>
	<u>83,667</u>	<u>100,178</u>
Income before income taxes and extraordinary item	144,333	250,445
Income taxes	<u>62,000</u>	<u>123,000</u>
Income before extraordinary item	82,333	127,445
Extraordinary item:		
Reduction in income taxes (note 7)	<u>62,000</u>	<u>123,000</u>
Net income	<u>\$ 144,333</u>	<u>\$ 250,445</u>
Earnings per share (see note below):		
Income before extraordinary item	<u>\$ .56</u>	<u>\$ .86</u>
Net income	<u>\$ .97</u>	<u>\$1.69</u>

**Note:** Earnings per share are computed on the basis of the number of shares outstanding during the year. In 1970 the earnings per share were calculated as if the capital reorganization took effect on January 1, 1970.

Fully diluted earnings per share — if it is assumed that all the stock options outstanding (note 5) were exercised as of the beginning of each year, the earnings per share would have been:

	<u>1971</u>	<u>1970</u>
Income before extraordinary item	\$ .42	\$ .62
Net income	\$ .75	\$1.24

For the purpose of calculating the fully diluted earnings per share, the earnings applicable to common shares were increased by interest on the proceeds (1971 - 8%, or \$24,000; 1970 - 9%, or \$27,000) less applicable income taxes, and the number of common shares was adjusted to reflect the additional shares that would have resulted from the exercise of the stock options.

See accompanying notes to the financial statements.



**CANADA FORGINGS LIMITED**  
(Incorporated under the laws of Canada)

**BALANCE SHEET**

	<u>December 31</u>	
	<u>1971</u>	<u>1970</u>
<b>ASSETS</b>		
<b>CURRENT:</b>		
Accounts receivable	<b>\$1,084,151</b>	\$1,011,322
Inventories (note 1)	<b>1,145,570</b>	1,014,673
Prepaid expenses and deposits	<b>1,371</b>	1,532
Total current assets	<b><u>2,231,092</u></b>	<u>2,027,527</u>
<b>FIXED (note 2):</b>		
Land, buildings and equipment, at cost	<b>2,623,254</b>	2,522,866
Less accumulated depreciation	<b>1,673,536</b>	1,516,637
Total fixed assets	<b><u>949,718</u></b>	<u>1,006,229</u>
	<b><u>\$3,180,810</u></b>	<u>\$3,033,756</u>
<b>LIABILITIES</b>		
<b>CURRENT:</b>		
Bank indebtedness (note 3)	<b>\$ 821,953</b>	\$ 753,284
Accounts payable and accrued charges	<b>734,011</b>	716,274
Taxes payable	<b>57,084</b>	36,769
Current portion of long term debt (note 4)	<b>120,000</b>	104,000
Total current liabilities	<b><u>1,733,048</u></b>	<u>1,610,327</u>
<b>LONG TERM DEBT (note 4)</b>	<b><u>160,000</u></b>	<u>280,000</u>
Total liabilities	<b><u>1,893,048</u></b>	<u>1,890,327</u>
<b>SHAREHOLDERS' EQUITY:</b>		
Capital stock (note 5) —		
Authorized:		
500,000 common shares without par value		
Issued:		
148,075 common shares	<b>914,562</b>	914,562
Retained earnings accumulated since January 1, 1970 (note 6)	<b><u>373,200</u></b>	<u>228,867</u>
	<b><u>1,287,762</u></b>	<u>1,143,429</u>
	<b><u>\$3,180,810</u></b>	<u>\$3,033,756</u>
On behalf of the Board:		
D. E. MacDonald Director		
D. C. H. Stanley Director		

See accompanying notes to the financial statements.

# CANADA FORGINGS LIMITED

## STATEMENT OF RETAINED EARNINGS

	<u>Years ended December 31</u>	
	<u>1971</u>	<u>1970</u>
Retained earnings (deficit) beginning of year	\$228,867	\$(3,158,122)
Elimination of deficit at January 1, 1970 as a result of capital reorganization (note 6)	<u>                    </u>	<u>3,158,122</u>
	228,867	
Net income for year	144,333	250,445
Capital reorganization expenses	<u>                    </u>	<u>21,578</u>
Retained earnings end of year	<u>\$373,200</u>	<u>\$ 228,867</u>

See accompanying notes to the financial statements.

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## AUDITORS' REPORT

### To the Shareholders of Canada Forgings Limited:

We have examined the balance sheet of Canada Forgings Limited as at December 31, 1971 and the statements of operations, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1971 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Hamilton, Canada,  
February 15, 1972

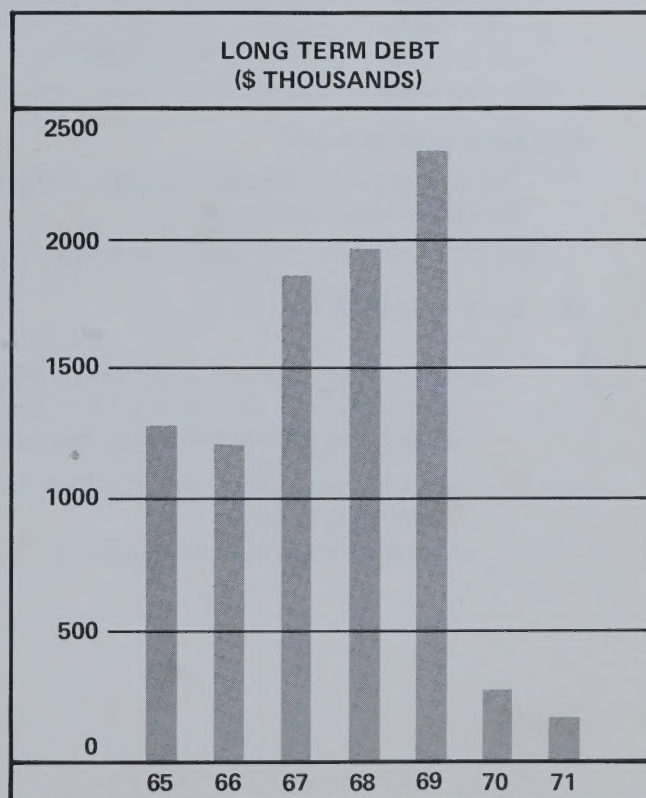
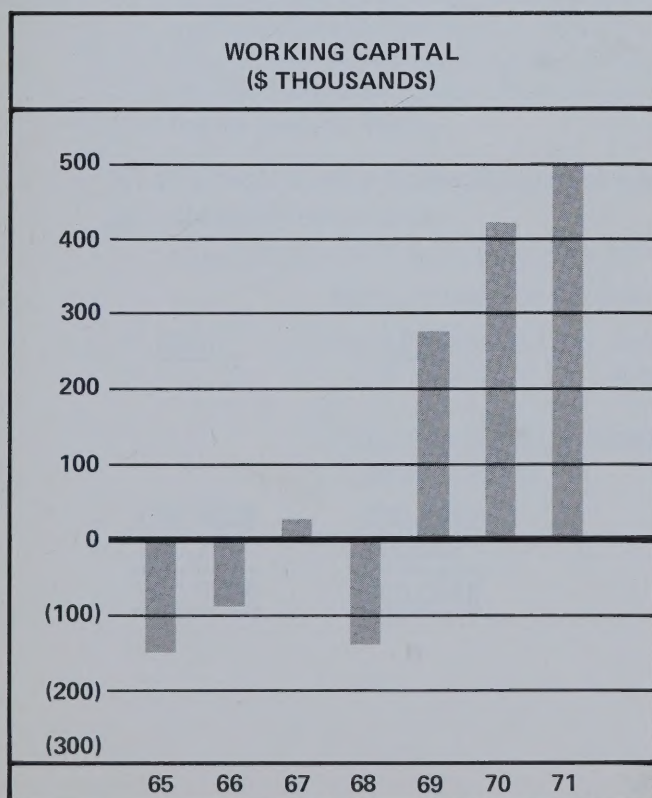
**CLARKSON, GORDON & CO.**  
Chartered Accountants.



# CANADA FORGINGS LIMITED

## STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	<u>Years ended December 31</u>	
	<u>1971</u>	<u>1970</u>
<b>SOURCE OF FUNDS:</b>		
Operations —		
Net income	<b>\$144,333</b>	\$250,445
Depreciation	<b>157,919</b>	143,227
	<b>302,252</b>	393,672
Gain on settlement of loan payable		22,503
	<b>302,252</b>	<b>416,175</b>
<b>APPLICATION OF FUNDS:</b>		
Fixed asset additions (net)	<b>101,408</b>	148,581
Provision for retirement of long term debt	<b>120,000</b>	104,000
Capital reorganization expenses		21,578
	<b>221,408</b>	<b>274,159</b>
<b>INCREASE IN WORKING CAPITAL</b>	<b>80,844</b>	142,016
<b>WORKING CAPITAL BEGINNING OF YEAR</b>	<b>417,200</b>	<b>275,184</b>
<b>WORKING CAPITAL END OF YEAR</b>	<b>\$498,044</b>	<b>\$417,200</b>



# CANADA FORGINGS LIMITED

## NOTES TO FINANCIAL STATEMENTS

December 31, 1971

### (1) Inventories -

The inventories are valued at the lower of cost and net realizable value and comprise the following:

	<u>1971</u>	<u>1970</u>
Raw materials	\$ 395,599	\$ 404,635
Work in process	657,205	516,470
Finished goods	81,201	77,843
Supplies	11,565	15,725
	<u>\$1,145,570</u>	<u>\$1,014,673</u>

### (2) Fixed assets -

Fixed assets comprise the following:

	<u>December 31, 1971</u>			Net value December 31, 1970
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net value</u>	
Land	\$ 12,886		\$ 12,886	\$ 12,886
Buildings	272,738	\$ 113,955	158,783	172,420
Equipment	<u>2,337,630</u>	<u>1,559,581</u>	<u>778,049</u>	<u>820,923</u>
	<u>\$2,623,254</u>	<u>\$1,673,536</u>	<u>\$949,718</u>	<u>\$1,006,229</u>

Depreciation has been computed on a straight-line basis since January 1, 1965 as follows:

- Buildings - 5% of cost
- Equipment - 10% of net carrying value at January 1, 1965, and of cost for all subsequent additions.

### (3) Bank indebtedness -

The company has pledged its accounts receivable and inventories as collateral security for the bank indebtedness.

### (4) Long term debt -

	<u>1971</u>	<u>1970</u>
Government of Canada Adjustment Assistance Board 6% loan, secured by 6% secured debentures (\$660,000) repayable as follows:		
\$120,000 in 1972; \$120,000 in 1973; \$40,000 in 1974.	\$280,000	\$384,000
Less portion in current liabilities	<u>120,000</u>	<u>104,000</u>
	<u>\$160,000</u>	<u>\$280,000</u>



**(5) Stock options -**

Under the company's stock option plan, which was approved in 1970, options have been granted to certain officers of the company allowing them to purchase a maximum of 75,000 shares of the company's common stock at a price of \$4 per share, exercisable at any time up to and including August 13, 1980. No options were exercised during the year.

**(6) Capital reorganization -**

Under the authority of Section 126 of the Canada Corporations Act, and of supplementary letters patent dated November 16, 1970, the company carried out a capital reorganization. As a result, the outstanding capital stock and long term debt (with the exception of the Government of Canada Adjustment Assistance Board Loan) were converted into shares of new common stock having a total book value equal to the net assets of the company thus eliminating the deficit at January 1, 1970.

The 1970 statement of operations presented for comparative purposes reflects the results of operations as if the capital reorganization took effect on January 1, 1970.

**(7) Income taxes -**

Income taxes otherwise payable for 1971 have been eliminated by application of losses of prior years.

At December 31, 1971 undepreciated capital cost for income tax purposes exceeds the net carrying value of depreciable assets by approximately \$1,200,000. If fully utilized against future years' profits, this would result in further income tax reductions of approximately \$600,000.

**(8) Pension plans -**

Pension costs of \$81,372 charged against operations in the year include payments made in respect of past service and current service. The actuarially computed present value of the company's past service pension obligations as at December 31, 1971 amounted to approximately \$473,000. This amount is being funded, and charged to operations, over future years to 1989.

**(9) Statutory information -**

Expenses for 1971 include the following remuneration of directors and senior officers:

Remuneration of six directors	\$ 3,000
Remuneration of four senior officers (all directors)	<u>93,000</u>
Total remuneration of directors and senior officers	<u><u>\$96,000</u></u>

CANADA FORGINGS LIMITED  
FINANCIAL HIGHLIGHTS 1965 - 1971

(Amounts in \$000)

	1965	1966	1967	1968	1969	1970	1971
<b>OPERATIONS</b>							
Net Sales	4208	4631	4365	4311	5289	6004	6337
Gross Profit	423	759	145	366	593	678	536
% of Sales	10.0	16.4	3.3	8.4	11.2	11.3	8.5
Selling, General and Administrative Expenses	404	448	419	308	342	328	308
% of Sales	9.6	9.7	9.6	7.1	6.5	5.4	4.9
Operating Profit (Loss)	19	311	(274)	58	251	350	228
% of Sales	.4	6.7	(6.3)	1.3	4.7	5.9	3.6
Financial Expenses	183	172	213	221	243	100	84
% of Sales	4.3	3.7	4.9	5.1	4.5	1.7	1.3
Income (Loss) before income taxes and extraordinary items	(164)	139	(487)	(163)	8	250	144
% of Sales	(3.9)	3.0	(11.2)	(3.8)	.2	4.2	2.3
Net Income (Loss)	(335)	175	(487)	(163)	8	250	144
% of Sales	(8.0)	3.8	(11.2)	(3.8)	.2	4.2	2.3

**FINANCIAL POSITION**

Current Assets	1455	1667	1549	1450	1763	2027	2231
Current Liabilities	1604	1758	1528	1593	1488	1610	1733
Working Capital	(149)	(91)	21	(143)	275	417	498
Fixed Assets, at Cost	1796	1915	2107	2310	2399	2523	2623
Accumulated Depreciation	1010	1080	1190	1284	1398	1517	1673
Net Fixed Assets	786	835	917	1026	1001	1006	950
Long Term Debt (excl. current portion)	1315	1214	1874	1976	2343	280	160
Shareholders' Equity (Deficiency)	(578)	(403)	(890)	(1053)	(1045)	1144	1288



**DIRECTORS**

J. W. Fraser  
F. F. Hull  
D. E. MacDonald  
F. Peacock  
J. C. Rykert  
D. C. H. Stanley

**OFFICERS**

D. C. H. Stanley	— Chairman
D. E. MacDonald	— President and General Manager
J. W. Fraser	— Vice-President and Sales Manager
F. Peacock	— Vice-President and Secretary-Treasurer

REGISTRAR AND TRANSFER AGENT:  
MONTREAL TRUST COMPANY, TORONTO AND MONTREAL  
AUDITORS: CLARKSON, GORDON & CO., HAMILTON  
LISTED ON THE MONTREAL STOCK EXCHANGE



**CANADA FORGINGS LIMITED**

EMPIRE STREET, P. O. BOX 308, WELLAND, ONTARIO — 416-735-1220